

LAUDERDALE COUNTY WATER SYSTEM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

INTRODUCTORY SECTION

LAUDERDALE COUNTY WATER SYSTEM

TABLE OF CONTENTS

Commissioners and Management	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-6
Basic Financial Statements	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-15
Supplementary Information:	
Schedule of Unaccounted for Water	16
Comparison of Actual Revenues and Expenditures to Budgeted Revenues and Expenditures	17
Internal Control and Compliance	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	18-21

**LAUDERDALE COUNTY WATER SYSTEM
COMMISSIONERS AND MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2010**

Martha Webb

William Jarrett

Carlton Gay

Mack Curtis

Johnny Land

Talmadge Carihfield—Ex-Officio Member

Randy Newman—Superintendent

Cheryl Chism, Bookkeeper

FINANCIAL SECTION

MARTHA CRITES

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee

I have audited the accompanying basic financial statement of the Lauderdale County Water System (the Water System), a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United State of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, the financial statements present only the financial position of the Water System, and do not present the financial position of Lauderdale County, Tennessee in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water System, at June 30, 2010, and the results of its operations and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 22, 2010 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions, of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of my audit.

The management's discussion and analysis on pages 3-5, schedule of unaccounted water on page 16, and comparison of actual revenues and expenditures to budgeted revenues and expenditures on pages 17 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County Water System's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements.

Martha Citra CPA

September 22, 2010

LAUDERDALE COUNTY WATER SYSTEM
551 CENTRAL CURVE ROAD
RIPLEY, TENNESSEE 38063

Management's Discussion and Analysis

The following discussion and analysis of the Lauderdale County Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2010. Management encourages readers to consider the information presented here in conjunction with the System's financial statements.

Financial Highlights

- The assets of the Lauderdale County Water System exceeded its liabilities at the close of the most recent fiscal year by \$6,232,247 (*net assets*). Of this amount, \$2,332,714 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$3,899,533 (*invested in capital assets, net of related debt*) reflects the net assets invested in capital assets.
- The total net assets decreased by \$28,781 for the fiscal year ended June 30, 2010.
- The Water System ended the year June 30, 2010 with cash and investments of \$2,386,925, representing a decrease of \$20,126 over the prior year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this decrease arose principally from capital and related financing activities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lauderdale County Water System's financial statements which consist of two components: fund financial statements and notes to the financial statements.

As an enterprise fund, the financial statements of Lauderdale County Water System are presented on the full accrual basis, presenting assets and liabilities of the Water System in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Lauderdale County Water System's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water System is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected water revenue and earned but unused employee compensated absences).

The *statement of cash flows* reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lauderdale County Water System, assets exceeded liabilities by \$6,232,247 at the close of the fiscal year.

The largest portion of the Water System's assets, (64%), are investments in property, plant and equipment, followed by investments, (26%), and cash and cash equivalents, (7%). The investment in property, plant and equipment are used to provide services to citizens. Consequently, these assets are not available for future spending.

Lauderdale County Water System's Net Assets

	2010	2009
Current assets	\$ 2,564,606	\$ 2,559,460
Fixed assets	<u>4,632,662</u>	<u>4,678,131</u>
Total assets	<u>\$ 7,197,268</u>	<u>\$ 7,237,591</u>
Current liabilities	\$ 254,914	\$ 243,436
Long-term liabilities	<u>710,107</u>	<u>733,128</u>
Total Liabilities	965,021	976,564
Net assets invested in capital assets, net of related debt	3,899,533	3,919,805
Net assets--unrestricted	<u>2,332,714</u>	<u>2,341,222</u>
Total Liabilities and Net Assets	<u>\$ 7,197,268</u>	<u>\$ 7,237,591</u>

Lauderdale County Water System's Statement of Revenues, Expenses and Changes in Net Assets

	2010	2009
Operating revenues	\$ 1,173,487	\$ 1,637,010
Operating expenses	<u>1,213,818</u>	<u>1,165,782</u>
Operating income (loss)	- 40,331	471,228
Nonoperating income (expense)	<u>11,550</u>	<u>12,236</u>
Change in net assets	\$ - 28,781	\$ 483,464
Net assets at beginning of period	<u>6,261,028</u>	<u>5,777,563</u>
Net assets at end of period	<u>\$ 6,232,247</u>	<u>\$ 6,261,027</u>

Capital Assets

The Lauderdale County Water System's investment in capital assets was \$4,632,662 (net of accumulated depreciation) as of June 30, 2010. This included water processing plants, water towers, pumping stations, water lines and operating structures necessary to provide water service to customers.

Debt

The Water System is indebted to FHA for two bond issuances, totaling \$28,683, and to Rural Economic and Community Development for another bond issuance, totaling \$704,446. Our current debt requirement per annum is \$55,753 which reflects both principal and interest requirements. Debt retirement in the fiscal year ended June 30, 2010 was \$25,198. No new debt was incurred in the fiscal year 2010.

Future Projections

The primary goals of the Lauderdale County Water System are to continue providing quality services to the water customers of Lauderdale County. The System continues to work to improve the services offered.

Requests for Information

This financial report is intended to provide an overview of the finances of the Water System's finances for those with an interest in this organization. Questions concerning any information within this report may be directed to the Superintendent of Lauderdale County Water System, PO Box 527, Ripley, TN 38063.

Randy Newman

**LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 536,925	
Investments	1,850,000	
Accounts receivable	116,356	
Prepaid expenses	24,693	
Inventory	34,590	
Accounts receivable--Annexation	<u>2,042</u>	
Total Current Assets		\$ 2,564,606

PROPERTY, PLANT, AND EQUIPMENT

Utility plant in service	\$ 8,150,039	
Equipment	<u>439,030</u>	
Total	\$ 8,589,069	
Less accumulated depreciation	<u>3,956,407</u>	
Total Property, Plant, and Equipment		<u>4,632,662</u>
Total Assets		<u>\$ 7,197,268</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 19,766	
Accrued interest	2,546	
Bond payable--current	23,022	
Accrued wages	24,980	
Customer meter deposits	182,559	
Deferred revenue	<u>2,041</u>	
Total Current Liabilities		\$ 254,914

LONG-TERM LIABILITIES

Bonds payable	<u>\$ 710,107</u>	
Total Long-Term Liabilities		<u>710,107</u>
Total Liabilities		\$ 965,021

NET ASSETS

Invested in capital assets, net of related debt	\$ 3,899,533	
Unrestricted	<u>2,332,714</u>	
Total Net Assets		<u>6,232,247</u>
Total Liabilities and Net Assets		<u>\$ 7,197,268</u>

See accountant's audit report and notes to financial statements.

LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Operating Revenues	
Water revenues	\$ 1,170,836
Other revenue	1,897
Sale of material	<u>754</u>
Total Operating Revenue	\$ 1,173,487
Operating Expenses	
City water purchased	\$ 222,950
Salaries	345,645
Contract meter reading	44,052
Payroll tax expense	26,383
Retirement expense	22,517
Uniform and clothing	5,037
Commissioner's compensation	4,202
Postage	11,624
Freight charges	89
State fees	5,558
Membership fees	3,910
Public relation expense	750
Electrical	95,093
Gas	2,951
Telephone	2,660
Professional fees	4,305
Truck repairs	2,177
Backhoe repairs	364
Ditcher repairs	595
Radio repairs	197
Tires and tire repairs	1,627
Fuel expense	21,262
Line repairs and maintenance	2,715
Plant repairs and maintenance	19,368
Travel	449
Lab test and lab equipment	3,182
Office expense	14,631
Chemical expense	23,507
Supplies--lab	1,389
Supplies--miscellaneous	3,100
Supplies--repair	21,370
Insurance expense	55,397
Depreciation	244,168
Bank service charges	<u>594</u>
Total Operating Expense	<u>1,213,818</u>
Operating Income	\$ (40,331)
Nonoperating Revenue (Expenses)	
Interest income	\$ 42,219
Gain on sale of asset	2,655
Interest expense	<u>(33,324)</u>
Total nonoperating revenues (expenses)	<u>11,550</u>
Change in Net Assets	\$ (28,781)
Net Assets at July 1, 2009	<u>6,261,028</u>
Net Assets at June 30, 2010	<u>\$ 6,232,247</u>

See accountant's audit report and notes to financial statements.

**LAUDERDALE COUNTY WATER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,162,350	
Cash payments to suppliers	(625,271)	
Cash payments to employees	<u>(344,152)</u>	
Net Cash Provided by Operating Activities		\$ 192,927

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	\$ (198,698)	
Interest paid on bonds	(34,031)	
Sale of fixed assets	2,655	
Payment on long-term debt	<u>(25,198)</u>	
Net Cash Used by Capital and Related Financing Activities		<u>(255,272)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	\$ 42,219	
Net Cash Provided by Investing Activities		<u>42,219</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS **\$ (20,126)**

CASH AND CASH EQUIVALENTS--JULY 1, 2009 **557,051**

CASH AND CASH EQUIVALENTS--JUNE 30, 2010 **\$ 536,925**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY (USED FOR) OPERATING ACTIVITIES**

Operating Income (loss)		\$ (40,331)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 244,168	
Net change in current assets and liabilities:		
Receivables	(12,166)	
Inventory	(9,633)	
Prepaid expenses	(5,003)	
Accounts payable	13,370	
Customer deposits	1,029	
Accrued wages	<u>1,493</u>	
Total Adjustments		<u>233,258</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES **\$ 192,927**

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lauderdale County Water System (the Water System) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Lauderdale County Water System (the Water System), a component unit of Lauderdale County, Tennessee, was created in 1974. These financial statements are limited to the assets, liabilities, fund balance, and results of operations of the Lauderdale County Water System. They are not intended to present the assets, liabilities, fund balances and results of operations of Lauderdale County taken as a whole. The County Commission of Lauderdale County appoints the five member Commissioners of the Lauderdale County Water System, approves the operating budget of the Water System and is liable for any unpaid debt of the Water System. The Water System provides water service to unincorporated areas of Lauderdale County, Tennessee.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)* as amended by the GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements must present the Water System (a component unit of Lauderdale County, Tennessee) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The Water System is a proprietary fund; its operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or ancillary activities.

Only one fund is presented within these financial statements.

b. Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Water System, the reporting entity. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

3. Financial Statement Amounts

a. Deposits and Investments

The Water System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Under the laws of Tennessee the Water System is authorized to invest with obligations of the United States or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, the Water System did not own any types of securities other than those permitted by statute.

Investments for the Water System are in the form of Certificates of Deposits and are reported at fair value.

b. Capital Assets

Purchased or constructed capital assets are reported at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following useful lives:

	<u>Estimated Useful Life</u>
Utility plant in service	10-50 years
Equipment	2-10 years

c. Receivable

Accounts receivable arise from water services rendered to the customers of the Water System. The board of directors authorizes write-downs of customer billings due to leaks and write-offs of accounts considered uncollectible. Amounts subsequently collected from a bad-debt write-off are recorded as income.

d. FASB Statements

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Water System has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

f. Compensated Absences

The Water System accrues vacation and compensated time for its employees to use in future periods.

g. Inventory

Inventory of supplies are recorded at historical cost.

h. Risk Management

The Water System is exposed to various risks of loss related to tort; theft of, or damage to assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2010, the Water Service was covered by insurance for these various risks at a cost it considered to be economically justifiable. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 2: DEPOSITS AND INVESTMENTS

The System's deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on hand	\$ 225
Cash in bank	32,138
Cash on deposit through County Trustee	<u>504,562</u>
Total Cash and Cash Equivalents	<u>\$ 536,925</u>
Investments:	
Certificates of Deposit managed by County Trustee	<u>\$ 1,850,000</u>

The Water System's deposits and investments at June 30, 2010 were covered by federal depository insurance or by the Tennessee Collateral Pool or by securities held by the custodial bank in the County Trustee's name.

Interest rate risk. To minimize exposure to declines in fair value, the certificates of deposit have staggering maturity rates with maturity dates of one year.

Custodial credit risk. The certificates of deposit are held in the County Trustee's Office name for the benefit of the Water System, and are not subject to custodial credit risk.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Concentrations of credit risk. The certificates of deposit are not subject to concentrations of credit risk as the custodial banks are either a member of the Tennessee Collateral Pool or provide securities held by the custodial bank as security for the funds invested.

NOTE 3: ACCOUNTS RECEIVABLE—ANNEXATION

The City of Ripley, Tennessee annexed an area and agreed to pay the Water System for estimated revenue lost by the Water System from this annexation. The estimated revenue is payable over a ten year period. The amount not collected at June 30, 2010 is also reflected as deferred revenue.

NOTE 5: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Capital assets being depreciated:				
Water Plant	8,148,974	99,177	108,112	8,140,039
Plant Equipment	104,882	0	0	104,882
Office Equipment	75,257	10,023	17,366	67,914
Equipment	<u>248,320</u>	<u>89,499</u>	<u>71,585</u>	<u>266,234</u>
Total Capital Assets Being Depreciated	8,577,433	198,699	197,063	8,579,069
Less—Accumulated depreciation for:				
Water Plant	3,615,187	204,914	108,112	3,711,989
Plant Equipment	60,719	5,346	0	66,065
Office Equipment	64,169	3,103	17,366	49,906
Equipment	<u>169,227</u>	<u>30,805</u>	<u>71,585</u>	<u>128,447</u>
Total Accumulated Depreciation	<u>3,909,302</u>	<u>244,168</u>	<u>197,063</u>	<u>3,956,407</u>
Total Capital Assets Being Depreciated, Net	<u>4,668,131</u>	<u>(45,469)</u>	<u>0</u>	<u>4,622,662</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,678,131</u>	<u>\$ (45,469)</u>	<u>\$ 0</u>	<u>\$ 4,632,662</u>

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6: BONDS PAYABLE

Bonds payable at June 30, 2010 consist of the following:

	Current	Long-Term	Total
FHA; 5%; payable in annual installments of \$6,345 including interest	\$ 5,214	\$ 17,293	\$ 22,507
FHA; 6%; payable in monthly installments of \$815 including interest	6,176	0	6,176
Rural Economic and Community Development; 4.5%; payable in monthly installments of \$3,592	<u>11,632</u>	<u>692,814</u>	<u>704,446</u>
Total	<u>\$ 23,022</u>	<u>\$ 710,107</u>	<u>\$ 733,129</u>

The annual maturities of long-term bonds as of June 30, 2010 are:

Year ended June 30,	
2011	23,022
2012	17,641
2013	18,473
2014	19,346
2015-2019	76,448
2010-2024	95,505
2025-2029	119,566
2030-2034	149,572
2035-2039	187,356
2040	<u>26,200</u>
Total	<u>\$ 733,129</u>

Net changes for the year ended June 30, 2010 in bond balances are:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
FHA 5%	\$ 27,473	\$ 0	\$ 4,966	\$ 22,507
FHA 6%	15,287	0	9,111	6,176
Rural Economic and Community Development	<u>715,567</u>	<u>0</u>	<u>11,121</u>	<u>704,446</u>
Total	<u>\$ 758,327</u>	<u>\$ 0</u>	<u>\$ 25,198</u>	<u>\$ 733,129</u>

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

An annual budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Some expenditures exceeded appropriations.

NOTE 8: CONCENTRATION OF CREDIT RISK

The Water System receives its operating funds from fees charged to water customers in Lauderdale County, Tennessee. While the Water System has a broad consumer base, the ability of customers to pay their accounts is dependent on the economic conditions of the area.

NOTE 9: RETIREMENT PLAN

The pension fund of the Lauderdale County Water System is included in the total retirement program for Lauderdale County, Tennessee under the Tennessee Consolidated Retirement System. Five percent (5%) is deducted from the employee's checks and the county pays a percentage match of 8.68% to fund the employees retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

SUPPLEMENTARY INFORMATION

**LAUDERDALE COUNTY WATER SYSTEM
SCHEDULE OF UNACCOUNTED FOR WATER
FOR THE YEAR ENDED JUNE 30, 2010**

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	257,285,000	
C	Water Purchased	52,456,600	
D	Total Water Treated and Purchased (Sum Lines B and C)		309,741,600
E	Accounted for Water:		
F	Water Sold	206,188,500	
G	Metered for Consumption (in house usage)	0	
H	Fire Department Usage	127,750	
I	Flushing	641,000	
J	Tank Cleaning/Filling	560,500	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments	69	
N	Total Accounted for Water (Sum Lines F thru M)		207,517,819
O	Unaccounted for Water (Line D minus Line N)		102,223,781
P	Percent Unaccounted for Water (Line O divided by Line D times 100)		33
Q	Other (explain)		

LAUDERDALE COUNTY WATER SYSTEM
COMPARISON OF ACTUAL REVENUES AND EXPENDITURES TO BUDGETED REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2010

	Original	Budget Final	Actual June 30, 2010	Variances to Final Budget
Operating Revenues				
Water sales	\$ 1,100,000	\$ 1,100,000	\$ 1,102,101	\$ 2,101
Water sales--bad debts collected	4,000	4,000	1,435	(2,565)
Other revenue	15,000	15,000	1,897	(13,103)
Penalties income	46,000	46,000	45,378	(622)
Service installation	12,000	12,000	9,700	(2,300)
Cash Over/Short	-	-	(18)	(18)
Reconnections	18,000	18,000	15,610	(2,390)
Sale of material	5,000	5,000	754	(4,246)
Total Operating Revenue	\$ 1,200,000	\$ 1,200,000	\$ 1,176,857	\$ (23,143)
Operating Expenses				
City water purchased	\$ 200,000	\$ 240,000	\$ 222,950	\$ 17,050
Salaries	350,000	352,000	345,645	6,355
Contract meter reading	46,000	46,000	44,052	1,948
Bad debt expense	8,000	8,000	3,370	4,630
Payroll tax expense	29,000	29,000	26,383	2,617
Retirement expense	25,000	25,000	22,517	2,483
Uniform and clothing	5,000	5,000	5,037	(37)
Commissioner's compensation	5,000	5,000	4,202	798
Postage	17,000	12,000	11,624	376
Freight	200	200	89	111
License	300	300	-	300
State fees	8,000	8,000	5,558	2,442
Membership fees	5,000	5,000	3,910	1,090
Public relations	2,000	2,000	750	1,250
Electrical	100,000	100,000	95,093	4,907
Gas	6,000	3,000	2,951	49
Telephone	4,000	4,000	2,660	1,340
Lab tests and lab expense	5,000	5,000	3,182	1,818
Legal services	2,500	500	-	500
Professional fees	6,500	6,500	4,305	2,195
Engineering expense	6,000	6,000	-	6,000
Truck repairs	5,000	5,000	2,177	2,823
Backhoe repairs	2,000	2,000	364	1,636
Ditcher repairs	10,000	10,000	595	9,405
Radio repairs	3,000	3,000	197	2,803
Tires and tire repairs	3,000	3,000	1,627	1,373
Fuel expense	30,000	30,000	21,262	8,738
Line repairs and maintenance	20,000	15,000	2,715	12,285
Plant repairs and maintenance	15,000	23,000	19,368	3,632
Travel--staff	1,100	1,100	449	651
Travel--board	100	100	-	100
Office expense	19,000	19,000	14,631	4,369
Chemical expense	25,000	25,000	23,507	1,493
Supplies--lab	2,500	2,500	1,389	1,111
Supplies--miscellaneous	5,000	5,000	3,100	1,900
Supplies--repair	55,000	30,000	21,370	8,630
Insurance expense	60,000	60,000	55,397	4,603
Depreciation	-	-	244,168	(244,168)
Emergency transfer funds	10,000	-	-	-
Bank service charges	700	700	594	106
Deposit expense	100	100	-	100
Total Operating Expense	\$ 1,097,000	\$ 1,097,000	\$ 1,217,188	\$ (120,188)
Operating Income	\$ 103,000	\$ 103,000	\$ (40,331)	\$ (143,331)
Nonoperating Revenue (Expenses)				
Interest income	\$ 30,000	\$ 30,000	\$ 42,219	\$ 12,219
Gain on sale of assets	-	-	2,655	2,655
Interest expense	(34,031)	(34,031)	(33,324)	707
Total nonoperating revenues (expenses)	\$ (4,031)	\$ (4,031)	\$ 11,550	\$ 15,581
Change in Net Assets	\$ 98,969	\$ 98,969	\$ (28,781)	\$ (127,750)
Net Assets at July 1, 2009	6,261,028	6,261,028	6,261,028	-
Net Assets at June 30, 2010	\$ 6,359,997	\$ 6,359,997	\$ 6,232,247	\$ (127,750)
See accountant's report.				

INTERNAL CONTROL AND COMPLIANCE

MARTHA CRITES

Certified Public Accountant

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee

I have audited the financial statement of Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2010 and have issued my report dated September 22, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lauderdale County Water System's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings, Recommendations, and Replies, that I consider to be significant deficiencies in internal control over financial reporting and material weaknesses. (2010-01, 2010-02, and 2010-03). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lauderdale County Water System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lauderdale County Water System's response to the findings identified in my audit are described in the accompanying Schedule of Findings, Recommendations, and Replies. I did not audit Lauderdale County Water System's responses and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Lauderdale County Water System Commissioners, the Lauderdale County Commissioners, and the Tennessee State Comptroller's Office and other regulatory bodies, and is not intended to be and should not be used by anyone other than those specified parties.

September 22, 2010

Martha Crites, CPA

**LAUDERDALE COUNTY WATER SYSTEM
SCHEDULE OF FINDINGS, RECOMMENDATIONS, AND REPLIES
FOR THE YEAR ENDED JUNE 30, 2010**

- 2009-01** Finding—Material Audit Adjustments Were Required for Proper Financial Statements Presentation (Material Weakness Under *Government Auditing Standards*). See finding 2010-01.
- 2009-02** Finding—Lauderdale County Water System Does Not Have The Resources to Produce Its Financial Statements and Footnotes (Material Weakness Under *Government Auditing Standards*). See finding 2010-02.
- 2009-03** Findings—Expenses Exceed Budget. Line items of expenses exceeded the budget. See finding 2010-03.

CURRENT FINDINGS, RECOMMENDATIONS, AND REPLIES

- 2010-01** Finding—Material Audit Adjustments Were Required for Proper Financial Statements Presentation (Material Weakness Under *Government Auditing Standards*)

Generally accepted accounting principles require Lauderdale County Water System to have adequate internal controls over the maintenance of its accounting records. At June 30, 2010 the general ledger was not materially correct, and multiple audit adjustments were required for the financial statements to be materially correct at year-end. Therefore, the Water System's accounting system did not prevent, detect, or correct potential misstatements in the accounting records. Although it is permissible for me, as the external auditor, to assist the Water System in preparing its financial statements, it is a strong indicator of a material weakness in internal controls if the Water System has ineffective controls over the maintenance of its accounting records which are used to prepare the financial statements, including the related notes. I presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

Recommendation—The Lauderdale County Water System should have appropriate processes in place to ensure that its general ledger is materially correct.

Response—The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to ensure that no material journal entries would be necessary for the financial statements to be materially correct at year-end.

- 2010-02** Finding—Lauderdale County Water System Does Not Have The Resources to Produce Its Financial Statements and Footnotes (Material Weakness Under *Government Auditing Standards*)

Generally accepted auditing standards require that Lauderdale County Water System's financial statements be the product of a financial reporting system that offers reasonable assurance that management is able to produce financial statements and footnotes that comply with generally accepted accounting principles. The preparation of financial statements in accordance with generally

accepted accounting principles requires that the county have internal controls over reporting financial statements, including the related notes. It is permissible for me, as the Water System's external auditor, to assist the Water System in preparing its financial statements and footnotes as a matter of convenience as long as the Water System has the skills needed to prepare its financial statements and footnotes. However, management, including the accounting staff, does not have sufficient knowledge of current generally accepted accounting principles to determine the completeness of financial statement information and disclosures. The inability to prepare financial statements and footnotes is an indication of lack of controls, or ineffective controls, because material misstatements may not be detected.

Recommendation—The Water System should develop the ability to produce financial statements and footnotes that comply with generally accepted accounting principles. This could include having at least one staff member trained in financial statement presentation. This staff member should have sufficient skills necessary to prepare a complete set of year-end financial statements even though the external auditor prepares the Water System's financial statements as a matter of convenience. If I, as the external auditor, continue to prepare the Water System's financial statements, this individual must have sufficient knowledge to determine to completeness of financial statement information and disclosures.

Response—The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to prepare a complete set of year-end financial statements. The cost/benefit is not sufficient at this time to comply with this recommendation.

2010-03

Findings—Expenses Exceed Budget. Line items of expenses exceeded the budget.

Recommendation—Management should compare line items to budgeted amounts to expended amounts periodically. The budget should be amended to encompass unexpected expenditures that cause the budget to be exceeded.

Response—Budget amendments are periodically submitted to the Board of Commissioners.